

Massachusetts Housing Investment Corporation

Consolidated Financial Statements And Auditors' Report

December 31, 2005 and 2004



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Massachusetts Housing Investment Corporation

December 31, 2005

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Daniel Dennis & Company LLP

Certified Public Accountants

Board of Directors
Massachusetts Housing Investment Corporation

We have audited the accompanying consolidated statements of financial position of Massachusetts Housing Investment Corporation (a non-profit corporation) and subsidiaries (the Corporation) as of December 31, 2005 and 2004, and the related consolidated statements of activities, and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Massachusetts Housing Investment Corporation as of December 31, 2005 and 2004, and the consolidated changes in net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The supplemental schedules are presented for purposes of additional analysis and are not a required part of the 2005 consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audit of the 2005 consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the 2005 consolidated financial statements taken as a whole.

Daniel Dennis & Company LLP

March 3, 2006

Massachusetts Housing Investment Corporation
Consolidated Statements of Financial Position
December 31, 2005 and 2004

	2005	2004
<i>Assets:</i>		
Cash	\$ 1,216,874	\$ 5,352,033
Money market deposits at member corporations-loan fund	210,259	225,979
Project loans net of uncollectible accounts of \$250,000 in 2005 and \$0 in 2004	5,421,000	750,000
Loans to affiliates	5,706,448	632,753
Due from affiliates	3,786,901	1,295,956
Investment in operating partnerships	-	359,258
Notes receivable—MHEF Partnerships	11,030,986	9,691,900
Amounts receivable and other assets	1,436,464	1,881,726
Furniture, equipment and leasehold improvements, net of accumulated depreciation of \$139,014 and \$1,098,628 in 2005 and 2004, respectively	<u>196,879</u>	<u>128,606</u>
Total assets	<u>\$ 29,005,811</u>	<u>\$ 20,318,211</u>
 <i>Liabilities and net assets:</i>		
<i>Liabilities</i>		
Notes payable to member corporations	\$ 5,299,751	\$ 225,979
Unearned fees	17,157,390	14,535,106
Accrued interest and other liabilities	<u>1,736,559</u>	<u>1,584,148</u>
Total liabilities	<u>24,193,700</u>	<u>16,345,233</u>
 <i>Net assets</i>		
Unrestricted	4,734,583	3,833,430
Temporarily restricted	<u>77,528</u>	<u>139,548</u>
Total net assets	<u>4,812,111</u>	<u>3,972,978</u>
Total liabilities and net assets	<u>\$ 29,005,811</u>	<u>\$ 20,318,211</u>

See accompanying notes to financial statements.

Massachusetts Housing Investment Corporation
 Consolidated Statements of Activities
 For The Years December 31, 2005 and 2004

	2005		2004		Total
	Unrestricted	Temporarily Restricted	Unrestricted	Temporarily Restricted	
<i>Revenue and Support:</i>					
Interest on bank deposits	\$ 127,319	\$ -	\$ 127,319	\$ 71,062	\$ 71,062
Interest on loans to affiliates	90,074	-	90,074	46,117	46,117
Management advisory fees	279,375	-	279,375	280,140	280,140
Portfolio servicing fees	922,840	-	922,840	589,255	589,255
Financing commitment fees	-	-	-	371,960	371,960
Origination fees	345,407	-	345,407	339,745	339,745
NMTC program revenue	2,805,886	-	2,805,886	822,440	822,440
Fees related to MHEF limited partnerships	2,541,423	-	2,541,423	3,494,786	3,494,786
Other equity program fees	33,602	-	33,602	56,193	56,193
Net assets released from restrictions	62,020	(62,020)	-	27,565	(27,565)
Total revenue and support	7,207,946	(62,020)	7,145,926	6,099,263	6,071,698
<i>Expenditures:</i>					
Salaries and employee benefits	4,123,324	-	4,123,324	3,836,772	3,836,772
Occupancy, equipment and furniture	348,513	-	348,513	366,117	366,117
Professional services	612,080	-	612,080	526,623	526,623
Depreciation	66,235	-	66,235	85,891	85,891
Other expenditures	1,156,641	-	1,156,641	595,841	595,841
Total expenditures	6,306,793	-	6,306,793	5,411,244	5,411,244
Increase (decrease) net assets	901,153	(62,020)	839,133	688,019	660,454
Net assets at beginning of year	3,833,430	139,548	3,972,978	3,145,411	3,312,524
Net assets at end of year	\$ 4,734,583	\$ 77,528	\$4,812,111	\$ 3,833,430	\$ 3,972,978

See accompanying notes to financial statements.

Massachusetts Housing Investment Corporation
Consolidated Statements of Cash Flows
For The Years December 31, 2005 and 2004

	2005	2004
<i>Operating activities:</i>		
Increase in net assets	\$ 839,133	\$ 660,454
<i>Adjustments to reconcile increase in net assets to net cash provided by operating activities:</i>		
Depreciation and amortization expense	66,235	85,891
Bad debt expense	250,000	-
Interest earned on money market deposits at member corporations	(10,258)	-
Increase in amounts receivable and other assets	(2,045,683)	(2,259,648)
Note accretion and notes receivable exchanged for unearned fees	(5,150,000)	(6,102,480)
Increase in unearned fees	2,622,284	3,285,894
Increase/(decrease) in accrued interest and other liabilities	152,411	(88,527)
Payments received on notes receivable—MHEF Partnerships	<u>3,810,914</u>	<u>7,323,082</u>
Net cash provided by operating activities	<u>535,036</u>	<u>2,904,666</u>
<i>Investing activities:</i>		
Funds advanced under project loans	(5,171,000)	(750,000)
Payments received under project loans	250,000	-
Payments received on loans to affiliates	13,332,753	9,395,505
Funds advanced under loans to affiliates	(18,406,448)	(7,805,230)
Decrease/(increase) in investments in operating limited partnerships	359,258	(359,258)
Purchases of furniture, equipment and leasehold improvements	<u>(134,508)</u>	<u>(51,646)</u>
Net cash provided by (used for) investing activities	<u>(9,769,945)</u>	<u>429,371</u>
<i>Financing activities:</i>		
Proceeds from notes payable	<u>5,099,750</u>	<u>-</u>
Net increase/(decrease) in cash	(4,135,159)	3,334,037
Cash at beginning of year	<u>5,352,033</u>	<u>2,017,996</u>
Cash at end of year	<u>\$ 1,216,874</u>	<u>\$ 5,352,033</u>
<i>Supplemental information</i>		
Interest paid	<u>\$ 88,305</u>	<u>\$ -</u>
Unearned fees recorded in exchange for notes receivable	<u>\$ 5,150,000</u>	<u>\$ 5,683,600</u>

See accompanying notes to financial statements.

Massachusetts Housing Investment Corporation
Notes to Consolidated Financial Statements
December 31, 2005 and 2004

1. *Background and Accounting Policies*

Purpose

On July 1, 1990, the Massachusetts Housing Investment Corporation (MHIC) was formally established as a Massachusetts-chartered, Chapter 180, not-for-profit corporation. MHIC's mission is to pool the resources of Massachusetts' lenders and investors to improve and expand the financing of affordable housing and community development throughout the state. MHIC has established three main financing programs to carry out its mission:

Loan Program

The loan program focuses on providing debt financing to developers of affordable housing. From its inception in 1990 through December 2000, MHIC utilized a loan pool structure to extend this financing. The loan-pool was funded with the proceeds from below market rate loans (member loans) made to MHIC from participating member corporations. In January 2001, MHIC converted the loan pool to a limited liability company structure. As a result, the member loans were converted to equity interests in a new entity, MHIC, LLC (the LLC). In addition, the various project loans, deposit accounts and reserves owned by MHIC were transferred to the LLC in exchange for extinguishing the member loans. MHIC is the manager of the LLC (see Note 2, Loan Program).

Low Income Housing Tax Credit (LIHTC) Program

The LIHTC program utilizes the federal low-income housing tax credit to provide equity financing to developers of affordable housing. The initial role of the program was to assist member corporations in underwriting low-income housing tax credit investments. The program, through MHIC's wholly-owned subsidiary Massachusetts Housing Equity Fund, Inc. (MHEF), is now a full-service syndicator of limited partnerships or limited liability companies (the Partnerships) structured for investment in low-income housing projects (Operating Partnerships) in Massachusetts. MHEF was formed in June 1993 and is currently the General Partner of ten Partnerships.

New Markets Tax Credit (NMTC) Program

The NMTC program utilizes the federal new markets tax credit to provide debt and equity financing to businesses that serve or operate in low-income communities. MHIC is the syndicator and manager of an investment company that is structured for investment in community development entities (MHIC-CDEs), which in turn provide financing to qualifying businesses. During 2005 MHIC received an allocation of \$54,000,000 in new markets tax credits. As of December 31, 2004, MHIC had been awarded \$25,000,000 (via its loan program affiliate, MHIC, LLC) and \$90,000,000 of new markets tax credit allocations. MHIC intends to syndicate additional investment companies to utilize these allocations

Massachusetts Housing Investment Corporation
Notes to Consolidated Financial Statements - *continued*
December 31, 2005 and 2004

1. *Background and Accounting Policies - continued*

Basis of Presentation

Net assets and revenues, gains and losses are classified based on the existence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified as follows:

Permanently restricted net assets—Net assets subject to donor-imposed stipulations that they be maintained in perpetuity by MHIC.

Temporarily restricted net assets—Net assets subject to donor-imposed stipulations that may or will be met by actions of MHIC and/or the passage of time.

Unrestricted net assets—Net assets not subject to donor-imposed stipulations.

Contributions of cash and other assets are reported as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statement of activities as net assets released from restrictions.

Temporarily restricted net assets at December 31, 2005 and 2004 reflect grant funds that will be awarded to beneficiaries not yet specified for Chapter 40B technical assistance.

Principles of Consolidation

The consolidated financial statements include the accounts of MHIC and its wholly-owned subsidiaries, MHEF, Inc and Massachusetts Housing Equity Fund Holdings LLC (MHEF Holdings). All significant intercompany transactions and balances have been eliminated in consolidation.

Furniture, Equipment and Leasehold Improvements

Furniture, equipment and leasehold improvements are stated at cost, less accumulated depreciation and amortization. Depreciation is computed by the straight-line method using rates based on estimated useful lives that range from 3 to 5 years.

Revenue Recognition

Loan program fee revenue reflects fees earned on a contractual basis for services provided to the LLC (see Note 2).

Massachusetts Housing Investment Corporation
Notes to Consolidated Financial Statements - *continued*
December 31, 2005 and 2004

1. *Background and Accounting Policies - continued*

Revenue Recognition - continued

Equity program revenue reflects fees for services that include organization, syndication, underwriting, long-term asset management and Partnership administration. The fees for syndicating and organizing the Partnerships are recognized when syndication is complete. Fees for underwriting investments are recognized at the time the underlying properties are acquired.

The fees for asset management and Partnership administration are recognized over the life of the Partnerships (estimated to be approximately 15 years). Certain refundable fees are deferred until the potential obligation lapses.

New markets program fee revenue reflects fees earned on a contractual basis for services provided to the MHIC-CDEs (see Note 4).

Grants are recognized as revenue in the period in which the conditions, if any, of the grant are satisfied.

Income Tax Status

In February 1993, MHIC was granted tax-exempt status as a 501(c)(3) corporation under federal tax law. MHEF, Inc. is a for-profit corporation and therefore is subject to federal and state income taxes. The activity of MHEF Holdings, as a wholly owned limited liability company, is reported on the tax return of MHEF, Inc.

Use of Estimates

Financial statements prepared in accordance with accounting principles generally accepted in the United States require the use of significant management estimates that affect the amounts and disclosures recorded in the consolidated financial statements. Actual results may differ from those estimates.

Cash and Cash Equivalents

The Company considers highly liquid investments with original maturities of three months or less to be cash equivalents.

Fair Value of Financial Instruments

The fair value of all reported assets and liabilities which represent financial instruments (none of which are held for trading purposes) approximate the carrying values of such amounts.

Massachusetts Housing Investment Corporation
Notes to Consolidated Financial Statements - *continued*
December 31, 2005 and 2004

2. Loan Program

The loan program utilizes a structure whereby investors invest in a limited liability company (MHIC, LLC) which in turn provides financing to low-income housing and community development projects. The interest on this financing is passed-through to investors to provide a "reasonable" return on investment. The initial capitalization of the LLC was effected by a Contribution Agreement whereby member corporations contributed loans made to MHIC under the former loan pool structure (member loans) to the LLC in exchange for LLC membership interests.

In addition, MHIC and the LLC entered into a Participation Agreement that provided for the LLC to purchase an undivided 100% interest in the project loans, bank accounts and reserves owned by MHIC (associated with the former loan pool) in exchange for the discharge of the member loans.

The proceeds of member loans for member corporations that have elected to remain in the loan pool (and not convert to the LLC structure) are held in deposit accounts at those institutions. The terms of the member loans are pursuant to a Master Member Agreement and accrue interest at 1% less than the annual interest rate earned on the interest-bearing deposit accounts (see Note 5).

MHIC earns advisory fees for managing the affairs of the LLC pursuant to the terms of an Advisory Agreement. The scope of services under the Advisory Agreement includes managing the orderly underwriting, approval and origination of loans and acquisition of investments, servicing loans and investments, establishing loan and investment policies, supervising and managing the requisition and disbursement of funds for loans, investing idle funds, business development and various other services that may be required by the LLC in the ordinary course of its business.

Under the terms of the Advisory Agreement, fees to MHIC are provided for as follows:

A management and advisory fee equal to an annual percentage rate of 0.75% of the average value of the aggregate capital commitments of all Investor Members of the LLC during such payment period;

A portfolio and servicing fee equal to an annual percentage rate of 1.50% of the average amount of real estate investments outstanding during a given payment period;

A financing commitment fee equal to an annual percentage rate of 0.50% of the average amount of funded and unfunded commitments for real estate investments existing during a given payment period.

An origination fee, payable by borrowers, that typically range from .5% to 1% of a given loan amount. The origination fees are typically paid to the LLC and subsequently passed-through to MHIC.

Massachusetts Housing Investment Corporation
Notes to Consolidated Financial Statements - *continued*
December 31, 2005 and 2004

2. *Loan Program - continued*

In addition, MHIC is entitled to an available earnings fee, based upon the degree to which the LLC achieves certain performance hurdles. MHIC shall receive the amounts described below in the following priority.

First, after payment of a 4% return to the members of the LLC, MHIC shall receive 10% of all remaining available earnings until the members have received a return equal to the federal funds rate.

Second, MHIC shall receive 40% of all remaining available earnings until members have received a return equal to the federal funds rate plus 2%.

Third, MHIC shall receive 60% of all remaining available earnings until members have received a return equal to the federal funds rate plus 4%.

Fourth, MHIC shall receive 75% of all remaining available earnings.

During the year ended December 31, 2005 and 2004, MHIC earned total fees for services to the LLC of \$1,202,215 and \$1,241,355, respectively. Amounts payable to MHIC and December 31, 2005 and 2004 were \$1,202,215 and \$346,999, respectively.

For the year ended December 31, 2005, MHIC waived the financing commitment fee due under the terms of the Agreement in order to improve the return to the LLC's members.

3. *Massachusetts Housing Equity Fund, Inc. (MHEF)*

As of December 31, 2005 and 2004, MHIC's investment in MHEF amounted to \$2,688,108 and \$2,877,943, respectively. MHEF, as general partner of the aforementioned Partnerships, has a .01% interest in their respective profits, losses and distributions. MHEF accounts for its investment in the Partnerships using the equity method. Under the equity method, the investments are carried at cost and adjusted for MHEF's share of income or loss from the Partnerships, additional investments and cash distributions.

The Partnerships, as limited partners in the various Operating Partnerships, are subject to risks inherent in the ownership of property which is beyond their control, such as fluctuations in occupancy rates and operating expenses, variations in rental schedules, proper maintenance of facilities and continued eligibility of tax credits. If the cost of operating a property exceeds the rental income earned thereon, the Partnership, or MHEF acting independently as an investor, may deem it in its best interest to voluntarily provide funds in order to protect its investment.

Massachusetts Housing Investment Corporation
Notes to Consolidated Financial Statements - *continued*
December 31, 2005 and 2004

3. *Massachusetts Housing Equity Fund, Inc. (MHEF) - continued*

At December 31, 2005 and 2004, the Partnerships have combined total assets of \$276 million and \$235 million, respectively, and combined cumulative deficits of approximately \$179 million and \$130 million, respectively.

4. *New Markets Tax Credit Program Revenue*

MHIC has entered into agreements (the Agreements) with the various MHIC-CDEs to provide various professional, administrative and management services. The fees for these services were determined by MHIC. Under the terms of the Agreements, MHIC will provide the following services:

Organization Services

These include all administrative and management support in connection with the formation of the MHIC-CDEs. Fees for these services are incurred in proportion to QEIs made by the Investment Company. MHIC-CDEs maximum obligation under the agreements is \$2,680,000, of which \$1,579,417 and \$279,075 was incurred as of December 31, 2005 and 2004, respectively. These fees are included in NMTC program revenue in the accompanying statement of activities and totaled \$1,300,342 and \$279,075 for the years ended December 31, 2005 and 2004, respectively.

Acquisition Services

These include legal and professional services required to close loans to or investments in qualifying businesses. MHIC-CDEs maximum obligation under these agreements is \$2,680,000, of which \$1,888,025 and \$500,000 was incurred as of December 31, 2005 and 2004, respectively. These fees are included in NMTC program revenue in the accompanying statement of activities and totaled \$1,388,025 and \$500,000 for the years ended December 31, 2005 and 2004, respectively.

Management Services

These include asset management services to monitor business and compliance aspects of MHIC-CDEs' loans and investments. MHIC also monitors MHIC-CDEs' compliance with reporting and other requirements of the IRC. MHIC-CDEs' maximum obligation under the agreements is \$1,580,000 over eight years, of which \$160,905 and \$43,386 has been incurred as of December 31, 2005 and 2004, respectively. These fees are included in NMTC program revenue in the accompanying statement of activities and totaled \$117,519 and \$43,386 for the years ended December 31, 2005 and 2004, respectively.

Massachusetts Housing Investment Corporation
Notes to Consolidated Financial Statements - *continued*
December 31, 2005 and 2004

5. Project Loans

Project loans are loans made to low-income housing and community development projects and are offered in conjunction with financing provided by affiliates of MHIC. MHIC typically provides the predevelopment or high loan-to-value component of the financing for a given transaction. Project loans earn interest at either fixed or variable rates that range from 0% to 6% and are secured, in a subordinated position, by the underlying real estate. At December 31, 2005 and 2004, the outstanding project loan balances were as follows:

	2005	2004	
Beginning balance	\$ 750,000	\$ -	
Loan disbursements	5,171,000	750,000	
Loan repayments	<u>(500,000)</u>	<u>-</u>	
Ending balance	<u>\$ 5,421,000</u>	<u>\$ 750,000</u>	

6 Loans to Affiliates

MHIC provides loans to affiliates to help affiliates bridge timing-related financing funding gaps.

Loan activity for the years ended December 31, 2005 and 2004 was as follows:

	2005	2004	
Beginning balance	\$ 632,753	\$ 2,223,028	
Loan disbursements	18,406,448	7,805,230	
Loan repayments	<u>(13,332,753)</u>	<u>(9,395,505)</u>	
Ending balance	<u>\$ 5,706,448</u>	<u>\$ 632,753</u>	

Loans to affiliates are callable upon demand and the proceeds for a given transaction are typically outstanding for less than one year. Loans to affiliates earn a variable rate of interest (that range from 3% to 5.5%) and are unsecured.

7. Investments in Operating Partnerships

MHEF Holdings, a wholly-owned subsidiary of MHEF, Inc., is the initial investor in three operating partnerships. MHEF Holdings intends to hold these investments until the underlying properties are placed in service and then transfer its interest to one or more of its affiliates. MHEF Holdings accounts for these investments using the equity method of accounting. Under the equity method, the investment is carried at cost and adjusted for its share of income, losses, additional investments, and cash distributions from the operating partnerships. Declines in the value of the investments that are other than temporary are recognized as necessary.

Massachusetts Housing Investment Corporation
Notes to Consolidated Financial Statements - *continued*
December 31, 2005 and 2004

7. Investments in Operating Partnerships - continued

The following is a detail breakdown of these investments in operating partnerships:

<i>As of December 31, 2005</i>	<i>Equity Investment</i>	<i>Amount Funded</i>	<i>Outstanding Commitment</i>
Trolley Square	\$ 4,414,455	\$ -	\$ 4,414,455
Columbia Wood	6,433,743	-	6,433,743
Brunswick Holborn	<u>5,740,812</u>	<u>-</u>	<u>5,740,812</u>
Total	<u>\$ 16,589,010</u>	<u>\$ -</u>	<u>\$ 16,589,010</u>
<i>As of December 31, 2004</i>	<i>Equity Investment</i>	<i>Amount Funded</i>	<i>Outstanding Commitment</i>
St. Jean Baptiste	\$ 2,592,581	\$ 259,258	\$ 2,333,323
YWCA Fina House	2,401,476	100,000	2,301,476
Capital Square	<u>6,283,131</u>	<u>-</u>	<u>6,283,131</u>
Total	<u>\$ 11,277,188</u>	<u>\$ 359,258</u>	<u>\$ 10,917,930</u>

8. Notes Payable

MHEF Holdings has obtained a warehouse loan facility for \$16,000,000 from Bank of America, of which \$3,936,000 is outstanding at December 31, 2005. The proceeds are used to make investments in or loans to Operating Partnerships. The loan matures in August 2006. MHEF Holdings has pledged its partnership interests in the Operating Partnerships as collateral for the loans.

MHEF Holdings has also obtained a warehouse loan facility for \$5,000,000 from MHIC, LLC, of which \$1,163,751 is outstanding at December 31, 2005. The proceeds are used to make 20% co-payments on funds advanced under the above-mentioned loan from Bank of America as well as to pay debt-service on both facilities. The loan matures in July 2006 and is secured by a second assignment of partnership interests in the Operating Partnerships.

MHEF Holdings pays interest on the outstanding balance of the loans at rates that range from 7.1% to 7.3% for the loan from Bank of America and at a floating rate of Prime for the loan from MHIC, LLC. Interest expense under both facilities totaled \$88,305 for the year ended December 31, 2005. The carrying value of notes payable approximates their fair market value.

Prior to the conversion as discussed in Note 1, MHIC funded a loan pool through unsecured notes issued to member corporations pursuant to a Master Membership Agreement. Under this agreement, all note proceeds not currently used to fund projects are deposited in interest-bearing deposit accounts at their respective lending institutions.

Massachusetts Housing Investment Corporation
Notes to Consolidated Financial Statements - *continued*
December 31, 2005 and 2004

8. *Notes Payable - Continued*

Note proceeds that are not used to fund projects accrue interest at 1% less than the annual interest rate earned on the interest-bearing deposit accounts. All proceeds that are lent to projects earn interest at the prime rate less 1%. For the periods ended December 31, 2005 and 2004, MHIC did not incur or pay any interest expense to member corporations since the interest rate on the note payable was less than 0%. These notes are renewable annually (applicable only to members that elected not to convert to the LLC). If the notes are not renewed, they require no principal amortization for five years and then amortize over a subsequent five-year period at an amount equal to the stated amount of the note less the member's pro-rata share of unfunded losses. At December 31, 2005 and 2004, outstanding borrowings under these agreements totaled \$200,000 and \$225,979, respectively.

9. *MHEF Notes Receivable and Unearned Fees*

Notes receivable represent the present value (using effective interest rates that range from 8% to 9%) of future cash payments that will be received by MHIC from the Partnerships for asset management and other services it will provide to the Partnerships, as specified in the Partnership Agreements. At December 31, 2005 and 2004, notes receivable included accrued interest of \$139,387 and \$238,880, respectively.

Unearned equity fees reflect MHIC's obligation to provide future services to the Partnerships as consideration for the aforementioned notes receivable. These services include underwriting investments, long-term asset management and partnership administration. This obligation is reduced as services are provided, according to the revenue recognition methodology associated with the particular service (see Note 1). At December 31, 2005 and 2004, unearned fees were \$17,157,390 and \$14,535,106, respectively.

10. *Cash and Cash Equivalents*

At December 31, 2005, cash and cash equivalent balances are held at financial institutions with federal insured limits of up to \$100,000 for each financial institution. Balances held at these institutions during the year can exceed this limit. MHIC has not experienced any losses in such accounts. The Company believes it is not exposed to any significant credit risk on cash and cash equivalents.

11. *Leases*

MHIC leases its facilities and certain furniture and equipment under operating leases that expire over future periods and require various minimum rental payments.

Massachusetts Housing Investment Corporation
Notes to Consolidated Financial Statements - *continued*
December 31, 2005 and 2004

11. Leases - Continued

Future minimum payments, by year and in aggregate, under these noncancelable operating leases consist of the following at December 31, 2005:

2006	\$	275,207
2007		275,207
2008		277,446
2009		284,163
2010		284,163
Thereafter		<u>497,286</u>
Total	\$	<u>1,893,472</u>

MHIC incurred lease expenses associated with office space and equipment of \$323,509 and \$344,144 for the years ended December 31, 2005 and 2004, respectively.

12. Employee Benefit Plan

As a tax-exempt 501(c)(3) corporation, MHIC established a noncontributory, defined contribution plan under Section 401(a) of the Internal Revenue Code covering all full-time employees. The employer contribution is based upon a percentage of employee salary. In July 1999, MHIC amended the Plan to include a 100% match of employee contributions up to 3% of a given employee's salary. In addition, MHIC established a rabbi-trust to supplement the retirement plan of its President and CEO, which included an initial contribution of \$150,000, and subsequent contributions of \$25,000 per quarter thereafter, beginning in calendar year 2005. MHIC contributed and charged to expense \$266,530 and \$231,462 for the year ended December 31, 2005 and 2004, respectively. These amounts are reflected in salaries and employee benefits in the accompanying consolidated statements of activities and changes in net assets.

13. Grant Awards

In 1999, MHIC applied for and received designation as a Community Development Finance Institution (CDFI). MHIC also applied for and received a grant award of \$1,000,000 from the CDFI Fund. The purpose of the grant is to add to MHIC's capacity to pursue its mission and grow. The proceeds from the grant can be used to expand existing programs, develop new ones or support its operations. In April 2001, \$684,761 of that grant was received and recorded as income. In June 2004, MHIC secured matching funds to be eligible for the remaining \$315,239 of the grant, and recorded that amount as grant award income.

As a condition to the funding of the grant, MHIC and the CDFI Fund executed an Assistance Agreement, which established target goals for MHIC to achieve and specific measurement criteria to be used in evaluating progress. The goals are merely guidelines to evaluate progress and achieving specific results are not a condition to retaining the

Massachusetts Housing Investment Corporation
Notes to Consolidated Financial Statements - *continued*
December 31, 2005 and 2004

13. Grant Awards - Continued

grant award. The grant was revocable if MHIC substantially changed its mission or ceased to be a CDFI prior to June 30, 2005.

In June 2004, MHIC received a \$320,000 restricted grant from the Massachusetts Housing Partnership Fund Board to provide grants in support of technical assistance to local communities confronting Chapter 40 B developments. As of December 31, 2005 and 2004, temporarily restricted net assets consist of unexpended grant funds of \$77,528 and 139,548, respectively.

14. Guarantees Provided for Borrowing Facilities of Affiliates

As of December 31, 2005, MHIC is the guarantor on several borrowing facilities of its affiliates, which have an overall outstanding balance of \$16,884,204. These credit facilities are primarily secured by pledges of first mortgage loans, unconditional investor notes, or partnership interests. In the event that the borrowings of the affiliates can not be repaid as scheduled and the above mentioned primary collateral is not sufficient to cover the outstanding balance, MHIC would assure the obligation. The company has not recognized any obligations relative to the guarantees.

15. Fixed Assets

Property and equipment consists of the following:

	2005	2004
Furniture	\$ 48,023	\$ 154,377
Equipment	197,020	814,838
Leasehold improvements	<u>90,851</u>	<u>258,019</u>
Total fixed assets	335,894	1,227,234
Accumulated depreciation	<u>(139,015)</u>	<u>(1,098,628)</u>
Total	<u>\$ 196,879</u>	<u>\$ 128,606</u>

During 2005 management wrote off fully depreciated assets of \$858,680. These assets were disposed of at no gain or loss to the Corporation.

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Supplemental Schedules

Massachusetts Housing Investment Corporation
Supplemental Consolidating Statement of Financial Position
December 31, 2005

	<i>MHIC</i>	<i>Subsidiaries</i>	<i>Elimination</i>	<i>Consolidated</i>
<i>Assets:</i>				
Cash	\$ 738,671	\$ 478,203	\$ -	\$ 1,216,874
Money market deposits at member corporations - loan fund	210,259	-	-	210,259
Project loans	500,000	4,921,000	-	5,421,000
Loans to affiliates	5,706,448	-	-	5,706,448
Due from affiliates	3,786,901	-	-	3,786,901
Investment in MHEF, Inc	2,688,109	-	(2,688,109)	-
Notes receivable - MHEF Partnerships	11,030,986	-	-	11,030,986
Amounts receivable and other assets	1,436,364	100	-	1,436,464
Due from parent	-	2,454,881	(2,454,881)	-
Furniture, equipment and leasehold improvements, net of accumulated depreciation and amortization	196,879	-	-	196,879
Total assets	<u>\$26,294,617</u>	<u>\$ 7,854,184</u>	<u>\$(5,142,990)</u>	<u>\$29,005,811</u>
<i>Liabilities and net assets:</i>				
<i>Liabilities:</i>				
Notes payable to member corporations	\$ 200,000	\$ 5,099,751	\$ -	\$ 5,299,751
Due to subsidiary	2,454,881	-	(2,454,881)	-
Unearned fees	17,157,390	-	-	17,157,390
Accrued interest and other liabilities	1,670,235	66,324	-	1,736,559
Total liabilities	<u>21,482,506</u>	<u>5,166,075</u>	<u>(2,454,881)</u>	<u>24,193,700</u>
<i>Net assets:</i>				
Unrestricted	4,734,583	2,688,109	(2,688,109)	4,734,583
Temporarily restricted	77,528	-	-	77,528
Total net assets	<u>4,812,111</u>	<u>2,688,109</u>	<u>(2,688,109)</u>	<u>4,812,111</u>
Total liabilities and net assets	<u>\$26,294,617</u>	<u>\$ 7,854,184</u>	<u>\$(5,142,990)</u>	<u>\$29,005,811</u>

Massachusetts Housing Investment Corporation
Supplemental Consolidating Statement of Activities
December 31, 2005

	<i>MHIC</i>	<i>Subsidiaries</i>	<i>Elimination</i>	<i>Consolidated</i>
<i>Change in unrestricted net assets:</i>				
Revenues				
Interest revenue:				
Interest on bank deposits	\$ 124,070	\$ 3,249	\$ -	\$ 127,319
Interest on project loans	175,913	(85,839)	-	90,074
Management and advisory fees	279,375	-	-	279,375
Portfolio servicing fees	922,840	-	-	922,840
Origination fees	345,407	-	-	345,407
NMTC program revenue	2,805,886	-	-	2,805,886
Fees related to MHEF limited partnerships	2,541,423	-	-	2,541,423
Other equity program fees	33,602	-	-	33,602
Loss from investment in subsidiaries	<u>(189,835)</u>	<u>-</u>	<u>189,835</u>	<u>-</u>
Total revenues	7,038,681	(82,590)	189,835	7,145,926
Expenditures				
Salaries and employee benefits	4,123,324	-	-	4,123,324
Occupancy, equipment and furniture	348,513	-	-	348,513
Professional services	612,080	-	-	612,080
Depreciation	66,235	-	-	66,235
Other expenditures	<u>1,049,396</u>	<u>107,245</u>	<u>-</u>	<u>1,156,641</u>
Total expenditures	<u>6,199,548</u>	<u>107,245</u>	<u>-</u>	<u>6,306,793</u>
Increase in unrestricted net assets	839,133	(189,835)	189,835	839,133
Net assets at beginning of year	<u>3,972,978</u>	<u>2,877,944</u>	<u>(2,877,944)</u>	<u>3,972,978</u>
Net assets at end of year	<u>\$4,812,111</u>	<u>\$ 2,688,109</u>	<u>\$(2,688,109)</u>	<u>\$ 4,812,111</u>